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CIA/RR CB 62-32

Current Support Brief

No. Pages 5
13 April 1962
Copy No. 25

THE PERFORMANCE OF THE POLISH ECONOMY IN 1961



CENTRAL INTELLIGENCE AGENCY
Office of Research and Reports

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THE PERFORMANCE OF THE POLISH ECONOMY IN 1961

In the initial year of its Second Five Year Plan (1961-65), Poland made considerable progress toward its long-term production and investment goals. National income rose a reported 8 percent in 1961 compared with 5 percent planned for the year, allowing the Poles to exceed planned increases for both consumption and investment and encouraging the regime to plan another large increase in national income--7 percent--for 1962. Rapid economic expansion, however, generated some incipient inflation in the consumer market, leading the regime in the last few months of 1961 to tighten up on employment and wage policy and to cut back on some planned investment projects. Moreover, because of growing domestic demand for imports and some difficulties in exports of machinery, little progress was made in 1961 toward reducing Poland's perennial foreign trade deficit, making it seem doubtful that the country will be able to meet its plan to balance exports and imports by 1963.

Gross industrial production in Poland increased about 10 percent in 1961, well above the planned rate of 7.6 percent. The most rapid increases in output occurred in nonferrous metallurgy, machinery (particularly electrical equipment), and chemicals. Labor productivity in industry rose nearly 8 percent in 1961, somewhat more than anticipated, as a result of increased mechanization and better factory organization. Plans for the introduction of technological change in various sectors of industry seem to have been fairly well implemented, although delays in the introduction of new processes caused underfulfillment of production plans for several important items in the machine building industry. Although production plans for most individual items in the transportation equipment industry were underfulfilled, the Poles report overfulfillment of the industry plan in value terms, possibly reflecting the increased output of military items. The Poles are planning continued rapid growth of industry again in 1962, when production is to increase 8.4 percent compared with 1961.

Poland's success in agriculture in 1961 was unequalled by any other Soviet Satellite. Agricultural production rose at least 6 percent, resulting in larger supplies of foodstuffs on the domestic market and making possible an increase of 35 percent in exports of food and agricultural products. Although the large growth of agricultural production in 1961 was due in large measure to favorable weather conditions throughout most of the crop year, it also reflects continued steady progress in supplying artificial fertilizer, quality seed, and agricultural machinery to Poland's predominantly private farms.

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The exceptionally good weather in 1961 has led the Poles to plan only a 1.2-percent increase in total agricultural production for 1962, with crop production expected to be slightly below the level of 1961.

Total investment grew in 1961 at a slightly higher rate than that of national income. A large part of this growth, however, reflects an increase in stocks much greater than was anticipated. This increase in stocks was the result of above-plan production in basic industries, a considerable domestic production as well as sizable imports of grain, and a relatively large volume of unfinished industrial production at the end of the year. Delays in shipbuilding caused a significant underfulfillment of the production plan for ships and a large increase in unfinished production in this industry. Net fixed investment, which grew about 8 percent in 1961 in constant prices, fell slightly short of the planned goal, for the most part because of the failure to carry out plans for "nonproductive investments" such as schools and hospitals. Plans for investment in the "productive" sector of the economy probably were slightly overfulfilled in terms of expenditures. Although continued gradual progress was made in reducing construction costs and delays in the completion of investments, however, a number of priority industrial investment projects planned for completion in 1961 had to be carried over into the current year.

The rapid rate of growth of industrial production was accompanied during the first three-quarters of 1961 by an even larger increase in total wage payments, as relatively loose hiring policies and liberal management of the industrial wage fund led to above-plan increases in employment and in average wages. Although the volume of retail trade increased somewhat faster than planned as the result of higher worker incomes, there was no serious strain on the consumer market during the spring and most of the summer. Most foodstuffs were in generally good supply, and consumers increased their savings deposits in anticipation of future purchases of consumer durables and housing.

A large increase in payments to the peasant population in August and September as well as the outbreaks of panic buying that occurred throughout Poland at the end of the summer seem to have increased the regime's concern for the potential market difficulties stemming from the large volume of purchasing power in the hands of both workers and peasants. In order to restrict increases in purchasing power, the government seems to have applied stricter controls during the last quarter in

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approving and carrying out investment projects and to have tightened wage and employment policies. As a result, employment in industry and construction dropped sharply during the last 3 months of 1961, work on some planned construction projects was held up, and the industrial production plan for December was slightly underfulfilled. In spite of these measures, however, retail prices increased somewhat during the last few months of the year and were about 3 percent higher in December 1961 than in December 1960.

The economic plan for 1962 allows for moderate increases in employment and wages. In view of the regime's demonstrated concern for market stability, it seems likely that it will try to enforce closer adherence to these plans than in 1961. An important step in this direction is the revision of industrial wage norms, which the regime intends to extend to a greater number of branches of industry during the current year. The government also has passed a set of resolutions aimed at eliminating abuses in the management of the wage fund, particularly in the use of contract labor and in the payment of bonuses from enterprise profit funds. In an effort to restrict the growth of rural incomes, which rose more rapidly than urban incomes in 1961, the regime has recently announced an increase in the land tax, to go into effect in the first half of 1962.

The most serious sign of future strain in the Polish economy as indicated by its performance in 1961 is in foreign trade. The Polish foreign trade deficit of US \$183 million in 1961, although larger than in 1960, was somewhat less than planned because of exceptionally large exports of food and agricultural products. Exports of machinery and equipment, which were to have provided the major stimulus to the 55-percent growth of total exports called for in the Five Year Plan, however, fell considerably below their anticipated volume in 1961, as the result of underfulfillment of deliveries to the Bloc. Imports, moreover, rose much more than planned.

The problems restricting the growth in exports of machinery and equipment are fairly deep seated and include inferior quality (in many cases even by Bloc standards), inadequate incentives for export production, and poor coordination between producers and foreign trade organizations. It seems doubtful that these difficulties can be solved soon enough for the Poles to carry out plans to balance exports and imports in 1963 and to have a sizable export surplus by 1965. Unless Poland is able to draw on further foreign credits during 1962-65, it may have to cut down on its import plans at some cost to either industrial or agricultural production.

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Indicators of Economic Growth in Poland ^{a/}
1960-62

	Percentage Increase Compared with Preceding Year			
	Actual 1960	Planned 1961	Actual 1961	Planned 1962
National income	5	5	8	7
Net fixed investment	7.0	9.5	8.2	12.8
Total consumption	1.5	4.1	6.7	3.8
Gross industrial production	10.9	7.6	10.5	8.4
Gross agricultural production	2 ^{b/}	4.3	6 ^{b/}	1.2
Exports	15.8	7.8	13.5	8.5
Imports	5.3	9.4	12.9	3.6
Foreign trade deficit (million US dollars)	169	207	183	116

a. Official Polish definitions and data are used unless otherwise indicated.

b. ORR estimate.

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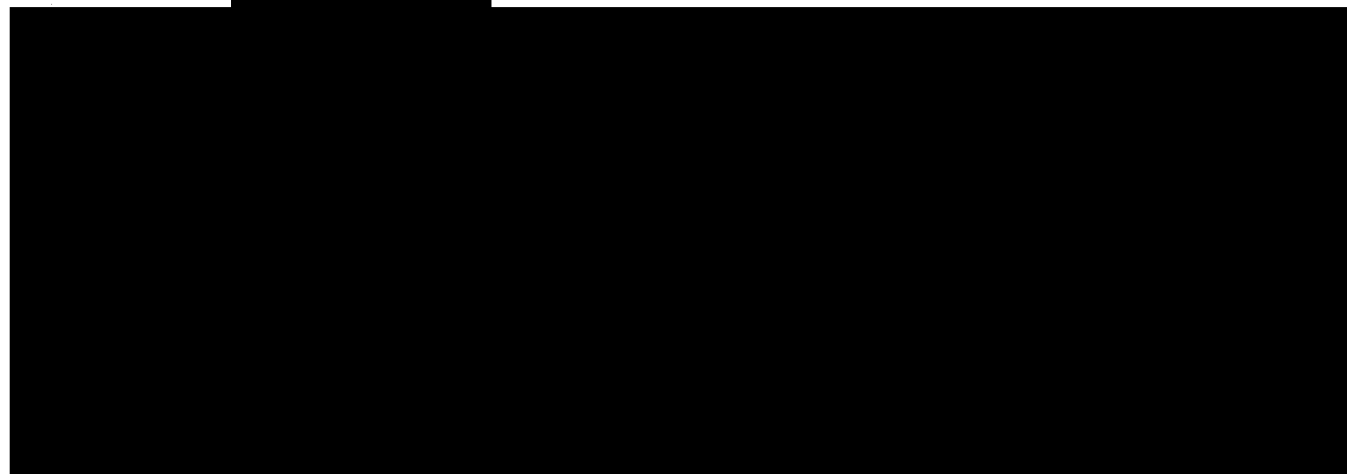
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